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ABSTRACT

Analysis of the world market and trade deficits and surpluses are used to examine global economics. The GATT (General Agreement on Tariffs and Trade) is discussed and presented with the various perspectives on the agreement. A forecast for economics of the '90s and a quiz are included. (EH)

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ABOUT THE COVER — Students from Indiana and around the world are studying agriculture at Purdue University. They plan careers or advanced studies related to international agriculture.

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INTERNATIONAL TRADE IN A GLOBAL ENVIRONMENT

Why do countries trade?

Countries do not trade, rather people in different countries trade. People need or often want what is not grown or manufactured in their country but is available from another country in order to enjoy a higher standard of living. It is individuals who consider the advantage (quality, quantity, price, and availability) of producing goods or services to sell abroad or buying goods or services produced in other countries. By exchanging goods, both gain by increasing their standards of living. Government policies in trading countries create greater or lesser advantages for individuals to engage in trade, but individuals decide if the advantages are worth the effort.

Why study international trade?

The global marketplace has arrived. Authors have written for years about living on a "shrinking planet." Years have come and gone, and the future is now. World trade is important in this global market and will increase in importance as the new millennium approaches. Already, one-fourth of everything grown on earth is traded. In the past, the United States invested heavily overseas. Now, foreign investment in the U.S. has increased twenty times in the last twenty years. One of every six manufacturing jobs in the United States is involved with an exported product. In agriculture, export markets are a critical source of farm income. It was no accident that the farm financial crisis of the 1980s occurred when the booming export market for agricultural goods collapsed. Therefore, understanding the factors, costs and benefits of world trade are critical issues to study. The policies established today will impact future generations. Decisions in the 1990s can create meaningful, workable economic and social environments for the future. On the other hand, developing weak, meaningless or counterproductive policies will create impossible dilemmas for the leaders of the 21st century.

Is the study of economic principles different from the economics of world trade?

Economic principles learned in school and economics of world trade are generally the same. But, consideration of cultural and political differences of economic systems create a more complicated analysis when trying to understand international economic systems as they apply to world trade. Remember, even though cultural differences are involved, the underlying motive of people to improve their standards of living does not change. The real difference between traditional economics and international trade is that in the latter some goods or inputs are not traded. For example, land cannot be traded, but the output of the land (e.g., coffee, oranges, soybeans,

bananas, corn) is traded. The interaction between land and its traded output distinguishes international economics from traditional economics.

Let's consider some of the differences by examining what most experts consider the basic economic systems.

1) Market Economy. Allows individual preferences and decisions of consumers and producers to determine the allocation of society's resources. The economies of the United States, Canada and Western Europe are examples.

2) Command Economy. The government takes an active and predominant role in determining the allocation of society's resources. The economies of the Union of Soviet Socialist Republic and The People's Republic of China are examples.

3) Traditional Economy. Allocation decisions rely less on market signals like price and profits and more on cultural norms and past generations. The economies of Iran and many African countries are examples.

As a student of economics in a market economy, you know that the theory of supply and demand is important to the understanding of distribution and prices. In market economies, the pattern of production and trade depend on relative opportunity costs between nations. Let's consider the concept of **opportunity cost** for a producer. Making or growing a product always creates an opportunity cost. This is the cost of shifting the nation's resources into their next best application. We can illustrate this concept by looking at the market for illegal drugs in the United States. We may wish that farmers in Colombia, South America would not grow coca leaves (the raw material used for making cocaine). However, the next best crop they could raise might bring only about one-third as much profit. That is, the opportunity cost of shifting away from coca is very high. Thus, countries tend to produce goods with high opportunity costs and exchange them with countries where the opportunity cost is lower.

In a command economy, sometimes referred to as a centrally-planned economy, the government attempts to determine services or goods produced and consumed based on plans developed by the government for the economy. Government planning in such a system will cause the economy to function differently; however, this does not mean that the economic analyses are not the same.

In the past, governments of Eastern European Bloc countries have prohibited the sale of designer jeans. Does this mean designer jeans were not sold in Czechoslovakia or Poland? No, the cost was simply higher to customers who were able to find and buy them on a "parallel market" — a concept a little different from an illegal "black market." [Example: At the time western jeans were offered for sale in the U.S. at $20 a pair, estimates of parallel market prices (there are no official figures) in Poland were as high as the equivalent of $90. So, in a heavily command-influenced economy, the economic perspective leads to accurate and understandable predictions.]

In Poland, unlike the USSR, a person would probably not be arrested for

selling what cannot be found in Polish stores. Or, arrests would probably not be made for exchanging western currency for more zlotys (Polish currency) on the street than could be obtained "officially" in a Polish bank. In the Soviet Union, a person would likely be arrested, thus it is a black market. The sale of cocaine in the United States is another example of a black market. The price of western jeans in Eastern Bloc countries and cocaine in the U.S. would not be as high if open market purchases were legal.

So you see, world trade involves the complex interaction of countries with widely varied cultures, political structures and economic freedoms. We live in an interdependent world (countries depending on each other) and our understanding of economics as it applies to other world players is important in understanding how we can play smarter and more efficiently.

HOW LARGE IS THIS WORLD MARKET AND WHAT DOES THE U.S. HAVE TO TRADE WITH OTHER COUNTRIES?

It is easy to understand that we export corn, soybeans, airplanes, or lumber. Let's look at U.S. trade in dollars by type (category).

TABLE I

U.S. Trade in 1985 — (In billions of dollars)

Exports			Imports		
Services		$147.3	Services		$132.1
Merchandise			Merchandise		
Food, feed and beverages		23.9	Food, feed and beverages		21.3
Grains	12.6		Coffee, cocoa, sugar	4.4	
Soybeans	3.9		Fuels		55.0
Fuels		10.2	Raw materials		56.8
Coal	4.5		Chemicals	8.5	
Petroleum	5.0		Iron and steel	9.0	
Chemicals		18.0	Machinery		56.9
Machinery		59.2	Electrical	18.3	
Electrical	13.4		Business and computers	13.1	
Computers	14.5				
Transportations equipment		14.5	Auto vehicles and parts		65.1
Aircraft	6.7		Cars	36.1	
Automotive vehicles, parts		22.9	Consumer goods		65.2
Cars	6.1		Electrical appliances	11.3	
Other manufactured goods		42.2	Textiles	14.9	
Other goods		21.7	Other goods		15.9
		$359.9			$468.3

Source: *Survey of Current Business* June, 1986

As you can see, the largest component of exports is services. What is a service and how can you export it? Services are financial transactions such as borrowing and lending money with other countries, insurance and tourism. These constitute the largest volume of the United States' export trade. So, if a Japanese tourist changes yen to dollars in New York when he arrives and spends all of these exchanged dollars in the U.S. during his stay, the exchange (whether money goes for food, toys, hotel, or cab fare) is counted as a U.S. export to Japan under the service category. U.S. banks, such as Citibank, have international operations. These investments are counted as services also.

Of the $23.9 billion the U.S. exported in food, feed and beverages in 1985, grains and soybeans constituted $16.5 billion, or 69%. In dollars, this is a major contributor to export revenues even though it was a down year for U.S. agricultural exports. According to the *Annual Economic Report of the President*, U.S. exports in 1987 totaled $249.6 billion. Agricultural products accounted for $29.5 billion (11.8%) of total exports — a better agricultural exporting year than 1985.

WHAT IS A TRADE DEFICIT OR TRADE SURPLUS?

Deficit — to fall short of the expected amount. In international trade, a trade deficit occurs when a country imports more goods and services than it exports. The U.S. trade deficit has been a major news headline of the 1980s. The difference between imports and exports is referred to as the balance of trade. When a country's value of imports exceeds the value of its exports, there is a balance of trade deficit; when exports exceed imports, it is known as a trade surplus. Imbalances in one account must be off-set elsewhere.

Since the United States has the land space and ability to produce surpluses (greater volumes than are needed for U.S. consumption) of grains and oilseeds, these commodities are exported to pay for goods which we import from other nations like Japan and West Germany.

WHEN AN ECONOMY BUYS MORE THAN IT SELLS, IS THERE A PROBLEM?

Below is a list of major trading partners of the United States. As you can see, the U.S. trades with many countries. As shown in Table II, the United

TABLE II

1985 U.S. Merchandise Trade With Major Trading Partners

U.S. Exports To:		U.S. Imports From:
Africa	$ 5,618 million	$ 9,891 million
Australia, New Zealand, South Africa	6,967	5,601
Belgium, Luxembourg	7,241	3,269
Brazil	3,311	7,194
Canada	53,879	71,173
France	6,097	8,908
Hong Kong	2,754	7,936
Italy	4,557	9,355
Japan	22,145	65,653
Mexico	13,386	19,104
Netherlands	4,805	4,111
OPEC (Asia)	6,203	8,460
Singapore	3,444	4,126
South Korea	5,728	9,978
Taiwan	4,274	15,480
USSR	2,423	409
United Kingdom	11,087	14,474
Venezuela	3,063	6,521
West Germany	8,939	19,535
All Countries	$212,619 million	$336,228 million

Source: *Survey of Current Business* June, 1986

States bought more from almost every nation than it sold. These deficits must be paid. During the 1980s, the most common means for settling the U.S. trade deficit was to sell U.S. assets to foreign nations. Some of these assets were U.S. stocks, bonds, and treasury bills. In other cases, foreigners bought U.S. companies or invested in new plants in the United States. The inflow of foreign money into the United States reflects the fact that we bought more goods than we sold. As long as we continue to import more goods than we sell abroad, foreign money for investment will continue to flow into the U.S.

In 1988, value of imports to the United states totaled $430.1 billion while exports from the U.S. were valued at $294.3 billion. The United States had a total trade deficit of $135.8 billion. In agricultural trade, the U.S. had a $14.3 billion trade surplus in 1988.[1] As you can see, feed and grains are important export items in which the U.S. has an opportunity to maintain a trade surplus. These are commodities that the United States can export in order to reduce the overall trade deficit.

THE GAME OF INTERNATIONAL TRADE...

When you play a game of basketball or Trivial Pursuit™, you determine before tip-off or first roll of the dice which version of the game or what rules will be followed. So it is with international trade. The group establishing the rules that govern the game of international trade is called the **General Agreement on Tariffs and Trade (GATT).** These rules govern international trade and are used to settle trade disputes with other trading countries. In a recent presentation to the 19th Annual Soybean Seed Research Conference, Wallace Tyner, head of the Department of Agricultural Economics at Purdue University, likened GATT to the Parker Brothers of international trade — they establish the rules of the game.

The most recent round of GATT negotiations has been called the Uruguay round because the meetings first took place there beginning in 1986. Prior to 1986, limited progress had been made in reducing agricultural trade barriers. Agricultural exporting nations, like the United States, insisted that reducing agricultural trade barriers be given a high priority. This change provides the United States and other agricultural-exporting countries the opportunity to help establish policies to benefit and hopefully increase export opportunities for agricultural products. The following positions emerged in the GATT negotiations:

United States — proposed that all protection and agricultural subsidies and trade distortions be eliminated by the end of the century.[2] This was a surprise to the other groups because the United States has heavily subsidized

[1] *Agricultural Outlook* - August, 1989

[2] A subsidy is any financial assistance given to producers or consumers of a product. For example, when the United States government sets the producer price for a farm product above the free market price, a subsidy is paid. This causes excess production which distorts world trade. The subsidy is the difference between the price paid as set by the government and the world market price.

agriculture through price supports, input subsidies, export subsidies, and import quotas.

European Community and Japan — support continued subsidized agricultural production, although by different amounts, thus creating protection for their agricultural products.

Cairns group (includes Canada, Australia, New Zealand, Argentina, and other exporting nations) — favor a movement towards free trade. This position is similar to that of the U.S.

Developing countries — have not taken a position, but have requested permission to have time to adjust to any agreement and be allowed greater protection for their agricultural sectors.

Since the initial Uruguay meeting, subsequent GATT rounds have been held in Geneva, Switzerland and Montreal, Canada. Philip L. Paarlberg, Assistant Professor of Agricultural Economics at Purdue University, studies international trade issues. He likens the GATT negotiations to a Saturday afternoon sports event whereby participating countries must decide which game to play (soccer, American football, Australian football) or a variation of all three! Each country proposes the game it believes it plays best. After much discussion, in April, 1989, the countries agreed to something similar. The Cairns Group proposal: a short-term freeze on subsidies and price supports at the 1986 level with long-run reduction. Once countries decide the game to play, they begin to negotiate the rules for international trade. That is, they need to decide the out-of-bounds, penalties, and what are legal plays (or moves). In the GATT, this is equivalent to nations subsequently proposing how and which of the subsidies are to be reduced. This kind of agreement limits what the United States, or any other nation, can do with its domestic farm programs. The current round of negotiations to set the rules is to be finished by the end of 1990. After this round, nations will be trading under these rules. In the course of this game, there will be disputes about how the rules apply in certain cases, not unlike pass interference in football.

CAN HISTORY HELP PREDICT THE FUTURE???

Professor Paarlberg reviews major factors that affected farm trade during the past two decades as he considers developments that are likely to emerge in the 1990s. The past twenty years have seen large swings in the U.S. agricultural trade picture. To look into the 1990s requires understanding the factors which produced the trade roller-coaster of the past.

1972 - 1981 — U.S. farm exports rose sharply, capturing a greatly increased global market share. Factors contributing to this increase include:

A. Shortfalls (shortages in production) occurred in several trading nations. For example, there was a short supply of grain in the Soviet Union due to drought. As a result, the Soviet government decided to import the grain needed for livestock feed rather than slaughter their animals for meat.

B. Worldwide economic growth was steady and provided favorable trading conditions for countries during this time.

Paarlberg considers three factors which contributed to this steady economic growth:

1) OPEC (Organization of Petroleum Exporting Countries) generated a lot of money when oil prices rose. Much of this money was loaned to developing nations. This created buying power which allowed these countries an opportunity to purchase goods they had been unable to purchase in the past for lack of funds.

2) World inflation was running high in several nations, including the U.S., Western Europe and developing nations which reduced real interest rates (interest rates less inflation). As a result, these countries were able to borrow money on favorable terms to purchase goods.

3) Fixed exchange rates (set after World War II) were abolished in 1973 because governments no longer could afford to offset trade deficits by transferring foreign exchange reserves. This caused a decline of the U.S. dollar. As the U.S. dollar became cheaper, U.S. goods on the world marketplace became "good buys" to foreigners.

THE WORM TURNS...A TURN OF EVENTS...WHAT ON EARTH HAPPENED?

In 1979, a series of events occurred that acted as a catalyst in the decline of agricultural exports:

1) The Federal Reserve decided that inflation was running too high and the value of the dollar was too low, so adjustments were made by the Federal Reserve to "rescue the dollar." This caused a rise in interest rates, a rise in the price of U.S. goods to foreigners, and an economic slowdown worldwide. Developing nations were no longer able to purchase goods on the favorable terms they enjoyed in the 1970s.

2) Oil prices fell and cut OPEC's income. This diminished the funds for international loans which nations had used to pay for food imports.

3) Weather conditions were generally favorable throughout the world which yielded greater volumes of grain output.

4) Economic reforms in China (population of over 1 billion and a major grain buyer) allowed farmers to produce more grain which lessened the need to import.

5) The worsening macro economic conditions of the world encouraged an increase of exports and reduced imports in other countries like Brazil and Argentina who had large foreign debts from the 1970s. This caused greater competition for U.S. grain on world markets.

6) In 1981, assuming the export trends of the 1970s would continue, the U.S. passed legislation to increase loan rates (minimum price for a commodity) to American farmers. Price supports are another form of subsidies in the GATT negotiations. The United States is so large in world grain markets that our price supports largely determine the minimum price on world markets. The U.S. reasoned that price supports could be raised, without cost, because of strong world demand. Market prices would be above the minimum level. When this trend did not materialize as expected, the new price supports caused world prices to be artificially high and U.S. grain did not sell. High prices left a greater opportunity for our competitors (Argentina, Canada, Australia, Brazil, and the European Community) to compete in the world market, something they had found difficult to do before.

The whole process had a domino effect. The health of the world economy is extremely interdependent: fragile, if you will. Policy decisions were made on a mistaken assumption. What happened? The export markets for U.S. farm products collapsed. Exports declined drastically resulting in a reduction of U.S. world market share, falling U.S. farm income, large subsidies to U.S. farmers, and the farm financial crisis of the 1980s.

In order to restore U.S. farm export growth, the 1985 Farm Bill lowered support of world market prices for 1986 and beyond by lowering U.S. loan rates — the price the United States Government will pay for grain. To expand exports, existing promotion programs were increased and a policy of export subsidies was introduced. The U.S. was anxious to renew GATT negotiations in order to open doors and encourage the sale of agricultural products, hoping to recoup some of the lost market share.

So, you see, it becomes extremely important not only to understand the forces that affect trade, but also to communicate, negotiate and take responsible action for factors which we can help control.

Since forecasters made false assumptions in the early 1980s, you might wonder what will happen in the 1990s. Economists like Philip Paarlberg study and project possible outcomes or trends based on economic theory and events of the past. It is important to study, understand and develop accurate forecasts that will give policy makers and negotiators the best information available to make decisions. This is tough since certain information is unpredictable (weather conditions and political reforms). In today's world,

what will be the effect of perestroika (Soviet economic reform) on the world economy and on U.S. farm trade? Will Soviet economic reforms lead to greater output of agricultural products and faster income growth, or will these reforms fail?

FORECAST FOR THE 1990s —

Professor Paarlberg suggests a number of pulses to watch in the new decade to determine whether the recent improvement in trade performance will continue or shoot into reverse as it did in the early 1980s.

♦ The U.S. is in the longest economic expansion period (1982 - 1989) since World War II. Many economists fear that the global economy may slow down and create lower demand for U.S. agricultural products.

♦ The huge U.S. budget and trade deficit causes concern in world financial markets. Exchange and interest rates are critical to the U.S. trade performance. Will the Federal Reserve's actions raise U.S. interest rates and the value of the U.S. dollar? Foreign countries would then get fewer francs, marks or yen for each dollar. Buyers would pay more for U.S. goods, resulting in diminished trade opportunities. Furthermore, a rise in interest rates will damage the import prospects of nations saddled with large foreign debts.

♦ Will the current GATT trade negotiations help? Will the U.S., the European countries and Japan continue to have opposite views on agricultural subsidies? Japan and Korea have become more liberal and import more foreign goods. Will this trend continue? Recent reduction in

trade barriers by some nations may not help much if the U.S. and Europe cannot negotiate an agreement on reducing subsidies. Remember, the GATT talks involve many nations who must agree. If the two largest traders, the United States and Europe, cannot agree, other countries will not be inclined to liberalize trade.

♦ Finally, the GATT talks are linked to decisions in the 1990 farm bill. If the GATT talks produce a reduction of subsidies, U.S. farm policy needs to reflect that agreement. Important and often interdependent issues loom which can affect U.S. agricultural trade performance.

UNKNOWNS IN THE FORMULA MAKE IT HARD TO PREDICT WHAT WILL HAPPEN — EASTERN EUROPE, WHAT ARE THE IMPLICATIONS?...

Nothing is exact. If only economists had a crystal ball...to know what weather conditions were going to be for growing crops over the next ten years...or if political and economic reform in Eastern Europe will succeed. What implications will these changes in Eastern Europe have for U.S. trade?

Who would have thought even a year ago that the Berlin Wall would come apart in 1989? Who would have believed a forecast which predicted the decline of communist governments in Eastern Europe? Events in Eastern Europe in the next decade may have major effects on U.S. trade or may have none. Much depends on the success of Eastern European reforms. Yet, even a successful transition to democracy and market economics can cause problems for U.S. agricultural trade. Czechoslovakia and East Germany have the greatest chance of making the leap to market economies. East Germany is likely to have strong support from West Germany to assist in the difficult transition. Czechoslovakia has had a comparatively strong economy in recent years and has a democratic tradition from the years before World War II.

Paarlberg studies the trade implications for grain and soybeans for the United States if East Germany becomes like West Germany. He bases his analysis on the data available for the early 1980s. Greater Germany would become an economic superpower. It would dominate the European economic environment, as well as become a major world player. Consider its size. If you combined the estimated GNP (gross national product) of both East and West Germany, it would become the third largest single country behind Japan and ahead of the Soviet Union.

Both East and West Germany import large quantities of agricultural goods. However, their buying patterns are very different. Economic rule of thumb: the higher the standard of living a country enjoys, the greater is its consumption of meat per capita (less grain used for human food). West Germany enjoys a high standard of living. If East Germany's adjusted standard of living matches or approaches that of West Germany, the need for grain as human food (such as in bread) could fall by 30 percent. However, meat consumption could increase by 11 percent. This means more

soybean meal and grain used to feed meat-producing animals. In other Eastern European countries, such as Poland, Romania, and Bulgaria, even larger shifts in consumption would occur if these nations moved to a western diet. Per capita meat consumption in these nations is two-thirds that in East Germany, while grain consumption is 47 percent greater.

Economic reform would also affect agricultural output. The difference in yields (amount of grain harvested per acre or hectare) between West and East Germany is related to the amount of inputs used, like fertilizers, and to prices received. If the East Germans could match yields of the West Germans, grain output would increase by 18 percent.

Paarlberg reminds us that prior to World War II, much of German farm output was produced in what is now East Germany. Other Eastern European nations also have the potential to increase output. This is especially true for Hungary and Romania. These two nations were major exporters to the rest of Europe in the first part of this century. They continue to have the favorable land and climate for producing crops. They lack the incentives and supplies in inputs.

The United States is not the only supplier of grains and soybean by-products needed for animal feed to produce greater supplies of meat. The United States faces the greatest competition from Argentina, Brazil, Canada, Australia, and Western Europe to supply the world market. Other commodities produced in the United States are needed to produce larger volumes of meat. Corn by-products and citrus pulp are now used to make livestock feed in West Germany. These products could be available from U.S. producers, but Brazil could supply citrus pulp and France produces corn by-products.

The first reaction East Germans have had as they sample their first tastes of shopping in the West is that prices are too high! During reform, prices will undoubtedly rise. This will shrink real incomes at first and buying power (consumption) will be cut. The advantage the East Germans have over Czechoslovakia, Hungary or Poland is that their sister "West" is likely to help finance their reform. In addition, except for Czechoslovakia, the other Eastern Bloc countries' economies are weaker in comparison to the East Germans, another reason that East Germany will reform more quickly. Czechoslovakia has had a much stronger economy than its neighbors in Eastern Europe, so the transition to a market economy, while difficult, is less severe.

SUMMARY

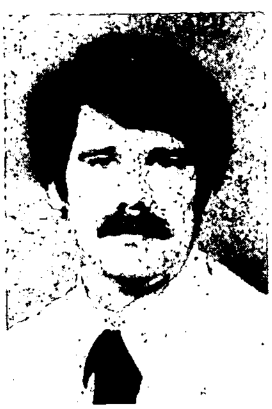
The world is a series of national economies linked through trade. Events in far-off places like Eastern Europe seem distant to Indiana, yet we feel their effects. Some events are momentous, but other seemingly insignificant occurrences cause worldwide changes.

In the early 1970s, the failure of the anchovy catch off Peru caused a global scramble for protein meals used in livestock feeds. Prices of soybean

meal doubled and the Nixon Administration, fearing the inflationary impacts of rising meat prices, created an embargo on U.S. exports of protein feeds. This affected Indiana farmers and consumers. Today, 17 years later, the Japanese are not reluctant to remind the United States that it cut them off from their food supply, however briefly.

Many of the factors affecting U.S. trade in the 1990s are beyond our control. However, the United States and its citizens do have control over macro economic policy, trade policy and domestic farm policy. It is our responsibility to understand the economic forces shaping events and to wisely control those which we can.

Did you know that — China will set up the first agricultural futures market in the communist world with the help of the Chicago Board of Trade? This recent announcement from Reuters — a commercial market news service. For more information on futures markets, see the Fall/Spring, 1989-90 issue: *Commodities Trading — an essential economic tool.*



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Professor Paarlberg's technical advice in this issue is acknowledged and greatly appreciated.

QUIZ

Circle the best answer.

1. Which of the following economies is an example of command economy?
   A. Canada
   B. Argentina
   C. United States
   D. Union of Soviet Socialist Republic

2. What is the purpose of GATT?
   A. To establish the rules that govern international trade.
   B. To act as a clearing house for commodities available in the world market.
   C. To price commodities so every trading nation has the opportunity to purchase a proportional supply of goods.
   D. To assure an adequate supply of commodities.

3. Which of the following was true in 1985, according to Table II? The U.S. had a:
   A. $694 million deficit with the Netherlands.
   B. $2257 million surplus with OPEC (Asia).
   C. $17294 million deficit with Canada.
   D. $3883 million surplus with Brazil.
   E. $9535 million deficit with West Germany.

4. Which of the following concepts would best describe a market economy?
   A. A product would always sell if it was the lowest price and the highest quality.
   B. Centrally-planned system allowing the market to provide products and services equally to all its citizens.
   C. Allowing preferences of buyers and sellers to determine what is bought and sold.
   D. Cultural norms and religious preferences is more likely than price and profits to determine what is sold and bought in an economy.

5. Which of the following is not considered an example of a true "black market?"
   A. Buying liquor in the U.S. from 1920 - 1933.
   B. Buying designer jeans in Poland.
   C. Buying rubles in the USSR from a Soviet citizen rather than at an offiɵial currency exchange.
   D. Buying cocaine from a neighbor in Chicago.

6. In Colombia, South America, farmers are able to get three times more for raising coca than coffee beans — big exports to the U.S. The incentive for growing coca rather than coffee is the:
   A. unequal exchange rate.
   B. fear of Colombian coffee lords.
   C. opportunity cost of shifting production.
   D. high subsidies farmers are paid for growing coca.

7. In the GATT negotiations, Japan and the European communities were grouped together in the text because they most closely agreed on:
   A. their political views.
   B. their desire to eliminate or reduce agricultural subsidies hoping to allow the free market to increase prices.
   C. their desire to continue to subsidize their producers in order to protect agricultural products.
   D. economic and religious views.

8. After a decade of great export expansion in the United States, which of the following world events is not considered by Professor Paarlberg a contributor to the decline of agricultural exports in the U.S.?
   A. The Federal Reserve took steps to "rescue the dollar" because it was declining in foreign markets.
   B. Oil prices declined.
   C. China allowed greater production of agricultural products and did not need the volume of agricultural products it had during the 1970s.
   D. There was drought in most of Central and Western Africa.

9. OPEC is an acronym for:
   A. Oil Producing Economic Cartel
   B. Organization of Petroleum Exporting Countries
   C. Oil for People Engaged in Coping
   D. Organized People for Economic Development of China

10. In 1985, which countries sold more merchandise (U.S. imports) than they bought from the U.S. (U.S. exports)?
    A. Australia, New Zealand and South Africa.
    B. Belgium and Luxembourg.
    C. Netherlands.
    D. Mexico.

11. The developing countries were able to enter world trade in the 1970s due to:
    A. loans from profits of OPEC during the years of high oil prices.
    B. money earned from mining operations of U.S. and France.
    C. loans U.S. made resulting from wheat sold to USSR.
    D. low wages paid to their labor.

12. In 1986, GATT negotiations were held in Uruguay where agricultural commodities were given a high priority in trade negotiations. Subsequent negotiations have been held in:
    A. Geneva, Switzerland and New York, New York, U.S.A.
    B. Geneva, Switzerland and Sidney, Australia.
    C. Geneva, Switzerland and Montreal, Canada.
    D. Geneva, Switzerland and Tokyo, Japan.

13. Which of the following actions would reverse the inflow of foreign money to the United States?
    A. Countries other than the U.S. make land available for foreign investment.
    B. The U.S. balances its trade or creates a trade surplus.
    C. The U.S. restricts its immigration laws.
    D. The U.S. removes or limits subsidies for its agricultural products.

CONSIDER THE FOLLOWING:

14. Why is the volume of trade with China and India so low given the population of these countries?

15. What would likely happen to U.S. exports if, collectively, all the countries of Africa were able to expand their economies resulting in increased wealth of its population?

16. What would likely happen to U.S. exports if a recession hit Europe, greatly reducing its ability to purchase goods and services?

17. African nations sell the bulk of their export goods to European countries and the U.S. rather than to other African nations. Speculate as to why this is true.

18. Why does the Soviet Union export so little to the U.S. and why does the U.S. export so little to the USSR? Which countries would you guess have been better trading partners with the USSR?

Answers:

1. D	6. C	10. D
2. A	7. C	11. A
3. C	8. D	12. C
4. C	9. B	13. B
5. B		

14. China and India have huge populations with low per capita incomes. People do not have money to buy imported goods and it is difficult for them to buy large quantities of anything produced.

15. U.S. exports would rise. The people of the African nations would likely purchase goods from the U.S. to increase their standards of living with their accumulated wealth.

16. U.S. exports would likely decline due to the decreased buying power of the Europeans.
17. African nations will sell where there is the greatest demand for their exports. This will naturally be in countries that have higher incomes such as the U.S., Canada and countries of Europe.
18. Cultural and political differences prevent open trade between many regions. The bulk of Soviet trade has been with other Eastern Bloc countries.

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